Causeway

The Banking Evolution

> OCTOBER 2013 NEWSLETTER

Through our bottom-up fundamental research, we have identified and purchased shares in undervalued banks undergoing restructuring or deleveraging.

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"To improve is to change; to be perfect is to change often."
–Winston Churchill

The great statesman probably wasn't referring to equity portfolio holdings, but his comments may describe banks, especially those in Europe and the United States. Changes made by many banks after the 2008 global financial crisis put them on a very different (and much reduced) risk trajectory. With the tempering of risk, investors should also expect more pedestrian performance from post-crisis banks. However, we highlight the new dynamism in bank management. These current bank leaders must change their institutions continuously by shedding capital-intensive assets and low return business lines. Under the thumb of regulators, banks must evolve. Extreme leverage fueled the pre-2008 inflated bank returns. We are now surveying a wide array of banks with at least twice the equity capital-to-assets they held in the pre-crisis years. Returns on equity haven't yet crawled above single digits for many of the banks in the financials sector. This implies that many banks are just barely generating returns in excess of their costs of capital. The race to reduce risk-weighted assets and change the mix of existing assets

The Banking Evolution

Consolidation allowed dominant banking franchises to take market share and cement their positions as top competitors in most businesses.

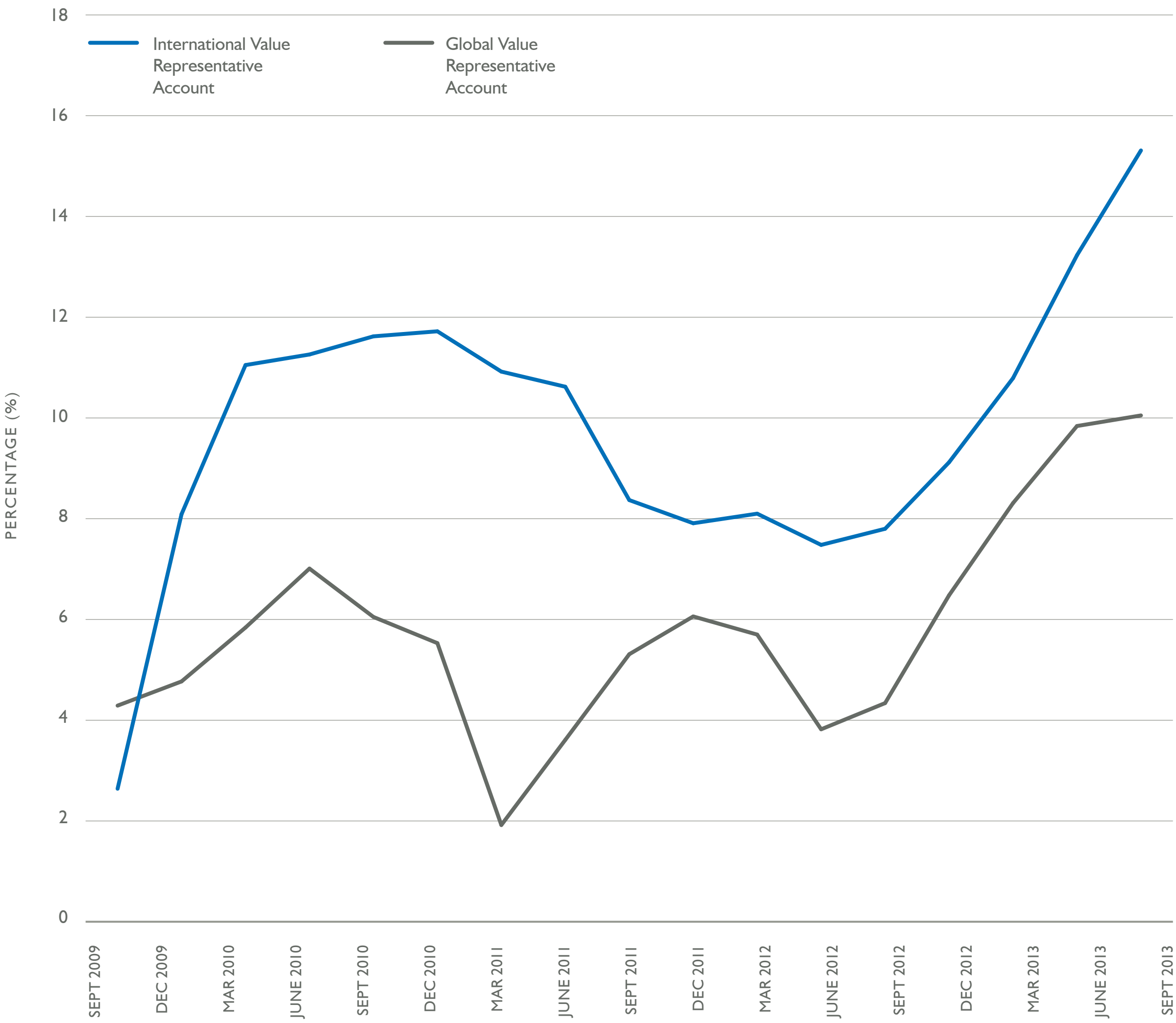
will continue for years to come. In this period of change for banks, why has Causeway added significantly to both global and international portfolio weights in bank stocks? We asked Causeway portfolio managers, Conor Muldoon and Alessandro Valentini, to explain the Causeway rationale for banks in the years ahead.

Conor, the Causeway global and international portfolio weightings in banks have risen over five percentage points from the start of the year. Why?

CM: We have about 15% of international and 10% of global portfolios in bank holdings. Through our bottom-up fundamental research, we have identified and purchased shares in undervalued banks undergoing restructuring or deleveraging. With profits on the upswing, these banks should return capital to shareholders. The banks with relatively rosy futures have solved problems of capital shortfall and excess leverage. In fact, some of our favorite bank holdings have already raised sufficient capital and shed assets to meet the capital requirements of "Basel III," the global regulatory standard on capital adequacy. Basel III does not require that banks meet these requirements until 2019, but investors want the results delivered today—not in six years.

AV: Even better, those fully capitalized banks generally operate in markets where the competition has shrunk to a few key players. In the United Kingdom, for example, the vast majority of retail banking market share is held by only four banks. A consolidated market allows these participants

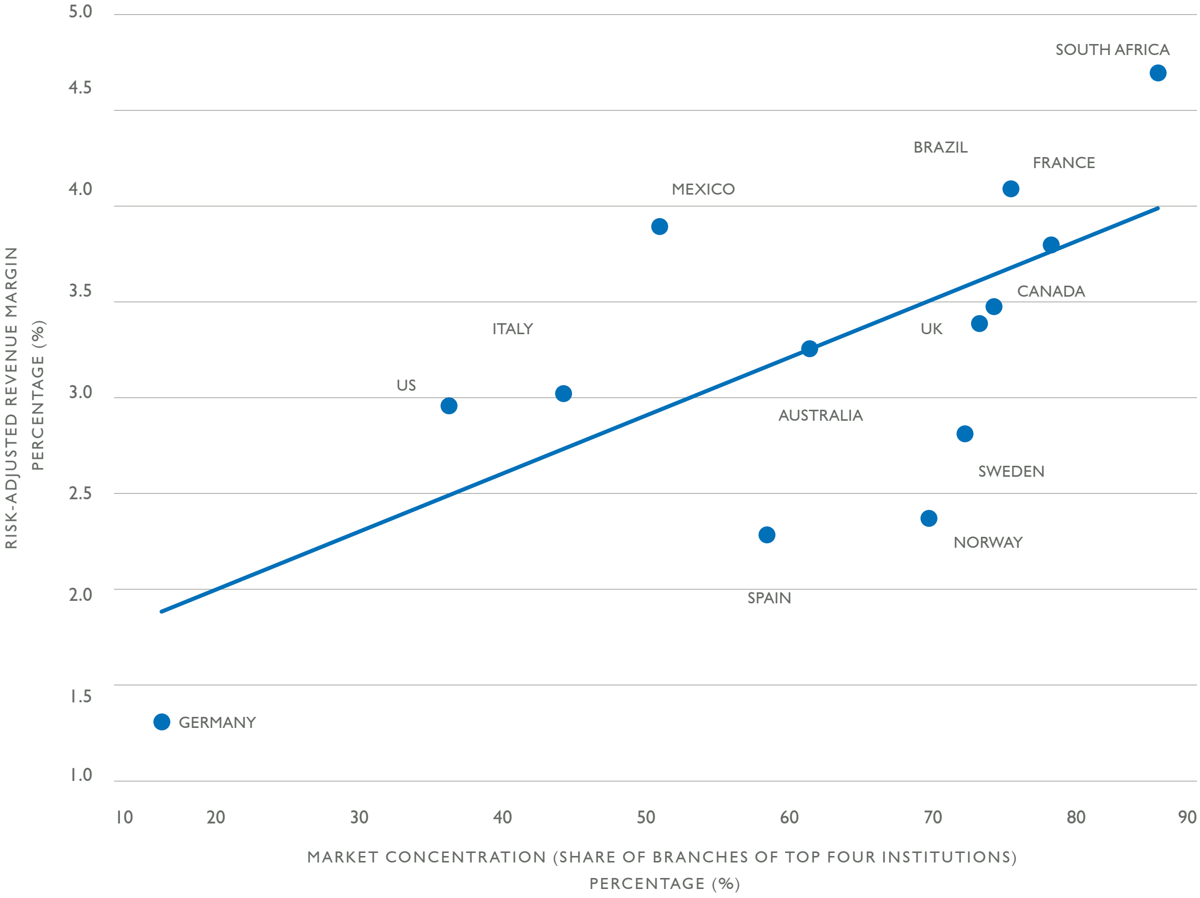
FIGURE 1: WE ADDED UNDERVALUED BANKS TO OUR INTERNATIONAL AND GLOBAL PORTFOLIOS
PORTFOLIO WEIGHT IN BANK HOLDINGS



Source: Causeway Analytics

to sustain high returns. And, tougher capital and liquidity requirements thwart new entrants and smaller banks. Incoming competition must swallow a huge information technology investment and be confident they can grow quickly, to spread those costs over a large customer base.

FIGURE 2: BANKS IN MORE CONCENTRATED MARKETS ARE MORE PROFITABLE

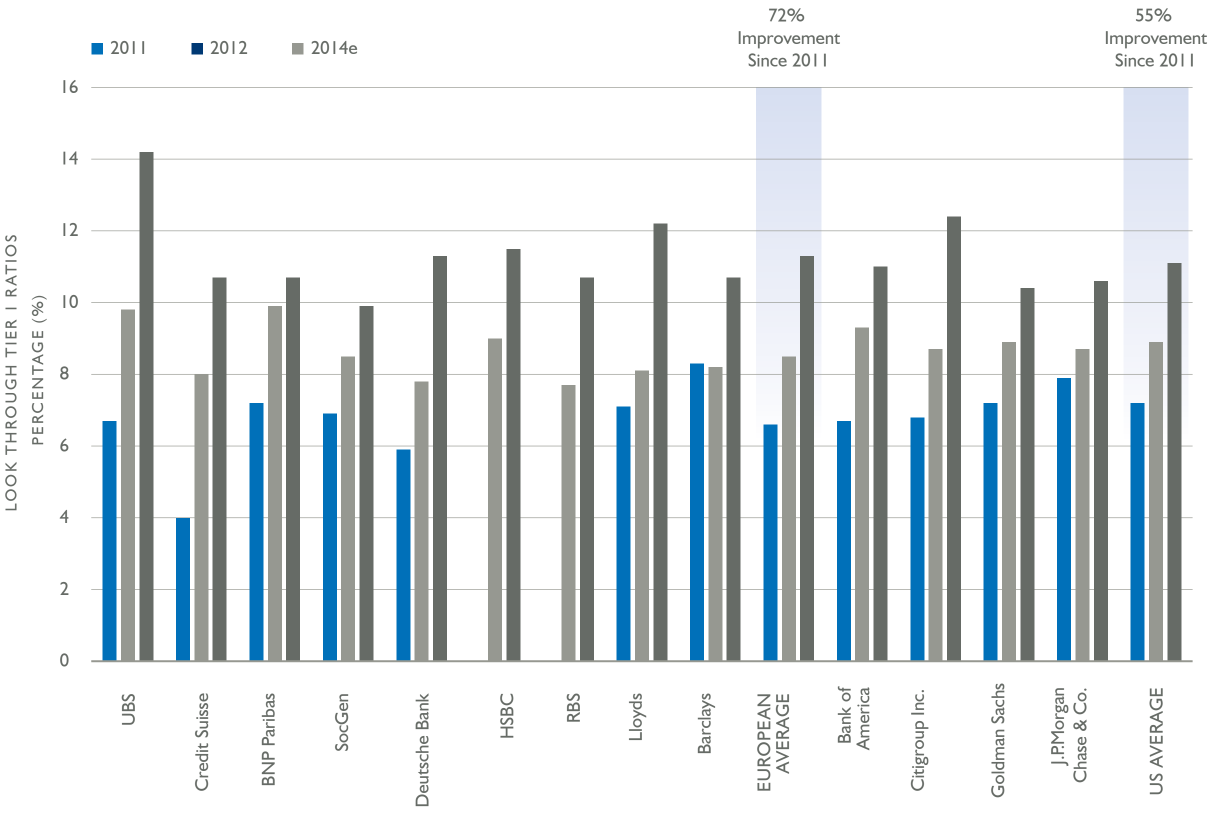


Source: Redburn

What opportunities do you see in US banks?

CM: Some large US money-center banks emerged from the financial crisis as stronger franchises. This improvement has come from consolidation. For example, JPMorgan acquired Bear Stearns and Washington Mutual, and Wells Fargo acquired Wachovia, all at distressed prices. Consolidation allowed dominant banking franchises to take market share and cement their positions as top competitors in most

FIGURE 3: BANKS HAVE RAISED SIGNIFICANT CAPITAL



Basel III Core Tier I Ratios. Core Tier I Ratio=Common Equity / Risk-Weighted Assets
Source: Morgan Stanley Research; data as of September 2013. 2011 data not available for HSBC and RBS.

businesses. With the benefits of scope and scale, we estimate that several of the largest US banks will continue to generate returns on equity in the mid-teens, in the current interest rate environment.

AV: When investing in banks, we must always consider the slope of the yield curve and the economic environment. For the United States and Europe, short-term interest rates have reached a cyclical low and will rise from crisis-mitigating

For the better-capitalized US and European banks, we expect a reduced drag from the costs of legal, regulatory, and control issues over the next two to three years.

levels. A bank can benefit meaningfully from gradually rising interest rates because higher rates provide a near-term boost to its net interest margin (the difference between what a bank earns on its assets and what it must pay on its liabilities). Additionally, for the better-capitalized US and European banks, we expect a reduced drag from the costs of legal, regulatory, and control issues over the next two to three years. For the patient investor, the benefits of improved profitability outweigh near-term share price turbulence.

What else is the market missing in the current environment?

CM: Some banks have hidden assets to which the market is not ascribing any value. Take deferred tax assets as an example. Several large banks booked substantial amounts of deferred tax assets during the crisis. With a return to profitability, these assets offset tax expenses, creating additional capital.

AV: And there are other ways for banks to unlock value. Conor mentioned restructuring—shedding or downsizing the most capital-intensive business segments is a potent way for banks to become better capitalized and earn higher yields. Several of our bank holdings are shifting their business mix from trading-driven to retail-driven, which demands less capital. This excess capital should accrue to shareholders.

We talked about Europe and the United States. Are you finding value in any other regions?

CM: We have found some opportunities in Japanese banks. Currently, our research is focused on the "megabanks" in Japan, the few national franchises responsible for the majority of lending to large Japanese corporations. Net interest margins for these megabanks will remain under pressure because of the low-rate environment and competitive pricing, but we are encouraged by evidence of loan growth. The weakness of the Japanese yen and the reforms enacted by Prime Minister Abe have increased the confidence of Japanese businesses, which may lead to a much needed rise in private sector capital spending. Currently, these banks are trading around book value, a level we consider reasonable given the potential for increased lending income.

AV: The Australian and Canadian banking markets benefit from some of the attractive characteristics we highlighted, with market concentration and financial strength. However, we don't currently have any exposure to banks in either of these markets. Why? The valuations don't leave room for further upside. That's a problem, as the banking cycle in these markets of low bad debts and low provisioning has likely passed its prime. However, the experience of Australian and Canadian banks offers a reasonable blueprint for the future economics of some of the other consolidating markets as the macroeconomic environment improves. Rather than look backward, we cast our eye toward rapidly changing banks aiming to position themselves for consistent profitability and rising dividend payouts.

Causeway Global Value Equity

STRATEGY HIGHLIGHTS

Philosophy

- Active, bottom-up stock selection
- Fundamental research
- Focus on controlling risk – defined as volatility of returns
- Team approach

Process Highlights

- 25 developed markets (United States, EAFE, Canada, South Korea)
- 3,000 stock universe
- Screen by country and industry
- Fundamental analysis
- Validate price target
- Rank stocks by risk/return profile

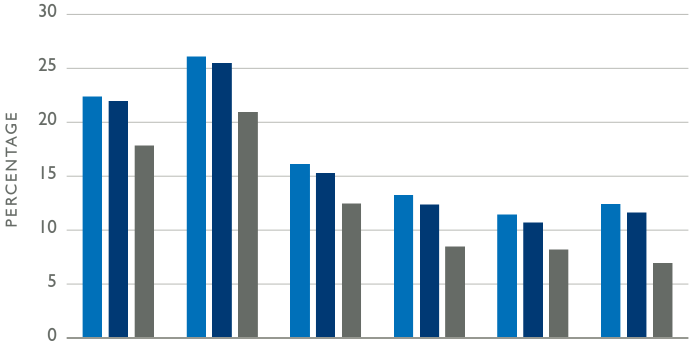
Portfolio Managers

- Sarah Ketterer, Harry Hartford, James Doyle, Jonathan Eng, Kevin Durkin, Conor Muldoon, Foster Corwith, Alessandro Valentini

PERFORMANCE *(as of 9/30/2013)*

Annualized for periods greater than one year

GLOBAL VALUE EQUITY COMPOSITE



	YTD	1 YEAR	3 YEARS	5 YEARS	10 YEARS	INCEPTION*
Gross of Fees	22.38	26.07	16.10	13.21	11.44	12.38
Net of Fees	21.94	25.44	15.25	12.33	10.67	11.61
MSCI World	17.81	20.90	12.46	8.46	8.16	6.95

*Inception: September 30, 2001

Causeway International Value Equity

STRATEGY HIGHLIGHTS

Philosophy

- Active, bottom-up stock selection
- Fundamental research
- Focus on controlling risk – defined as volatility of returns
- Team approach

Process Highlights

- 24 developed markets (EAFE, Canada, South Korea)
- 1,500 stock universe
- Screen by country and industry
- Fundamental analysis
- Validate price target
- Rank stocks by risk/return profile

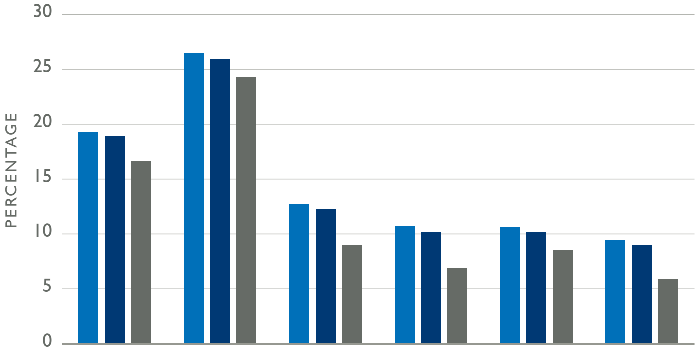
Portfolio Managers

- Sarah Ketterer, Harry Hartford, James Doyle, Jonathan Eng, Kevin Durkin, Conor Muldoon, Foster Corwith, Alessandro Valentini

PERFORMANCE *(as of 9/30/2013)*

Annualized for periods greater than one year

INTERNATIONAL VALUE EQUITY COMPOSITE



	YTD	1 YEAR	3 YEARS	5 YEARS	10 YEARS	INCEPTION*
Gross of Fees	19.28	26.43	12.75	10.67	10.62	9.40
Net of Fees	18.91	25.89	12.27	10.19	10.15	8.96
MSCI EAFE	16.59	24.29	8.97	6.85	8.50	5.92

*Inception: June 11, 2001

Causeway Emerging Markets Equity

STRATEGY HIGHLIGHTS

Philosophy

- Actively managed, tracking-error oriented, quantitative emerging markets strategy
- Combines bottom-up and top down factors in security selection
- Risk control:
  - Constrain country/sector weights versus benchmark
  - Use proprietary quantitative tools

Process Highlights

- 24 emerging markets
- 1,200 stock universe
- Employ stock ranking and risk models designed for emerging markets
- Use optimization to maximize expected return per unit of risk

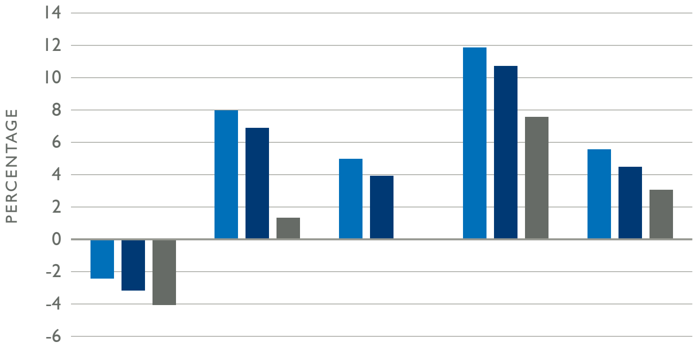
Portfolio Managers

- Arjun Jayaraman, MacDuff Kuhnert

PERFORMANCE *(as of 9/30/2013)*

Annualized for periods greater than one year

EMERGING MARKETS EQUITY COMPOSITE



	YTD	1 YEAR	3 YEAR	5 YEARS	INCEPTION*
Gross of Fees	-2.41	7.98	4.99	11.86	5.55
Net of Fees	-3.17	6.88	3.92	10.73	4.49
MSCI EM	-4.05	1.33	0.00	7.56	3.07

*Inception: April 30, 2007

Causeway Global Absolute Return

STRATEGY HIGHLIGHTS

Philosophy

- Combines separate investment processes: fundamental (long) and quantitative (short) sources of alpha

Process Highlights

- Global developed market value equity (long/short)
- Fundamental long (typically 35-55 exposures), 2-3 year time horizon
- Quantitative short (typically 50-125 exposures), 3-6 month time horizon
- Dollar value of longs approximately equals dollar value of shorts
- Typically low or no correlation to the MSCI World Index

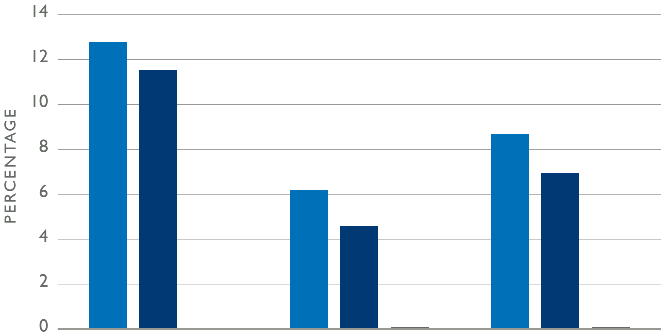
Portfolio Managers

- Sarah Ketterer, Harry Hartford, James Doyle, Jonathan Eng, Kevin Durkin, Conor Muldoon, Foster Corwith, Alessandro Valentini, Arjun Jayaraman, MacDuff Kuhnert

PERFORMANCE *(as of 9/30/2013)*

Annualized for periods greater than one year

GLOBAL ABSOLUTE RETURN COMPOSITE



	YTD	1 YEAR	INCEPTION*
Gross of Fees	12.77	6.19	8.67
Net of Fees	11.52	4.60	6.96
BofA/ML 90 T-Bills	0.06	0.11	0.10

*Inception: February 28, 2011

Causeway International Opportunities

STRATEGY HIGHLIGHTS

Philosophy

- Combines active fundamental international developed markets strategy with active quantitative emerging markets strategy

Process Highlights

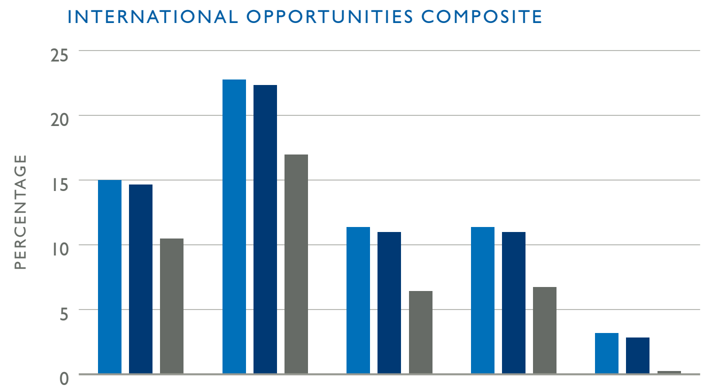
- Uses a quantitative asset allocation strategy to determine exposures to developed and emerging markets
- Meticulous fundamental research
- Active, bottom-up stock selection
- Disciplined quantitative approach with fundamental underpinnings
- Proprietary risk models developed in-house

Portfolio Managers

- Sarah Ketterer, Harry Hartford, James Doyle, Jonathan Eng, Kevin Durkin, Conor Muldoon, Foster Corwith, Alessandro Valentini, Arjun Jayaraman, MacDuff Kuhnert

PERFORMANCE *(as of 9/30/2013)*

Annualized for periods greater than one year



	YTD	1 YEAR	3 YEAR	5 YEARS	INCEPTION*
Gross of Fees	**14.99**	**22.78**	**11.39**	**11.38**	**3.18**
Net of Fees	**14.67**	**22.32**	**10.99**	**11.00**	**2.84**
MSCI ACWI Ex US	**10.47**	**16.98**	**6.43**	**6.74**	**0.25**

*Inception: June 30, 2007

Important Disclosures

The Firm, Causeway Capital Management LLC ("Causeway"), is organized as a Delaware limited liability company and began operations in June 2001. It is registered as an investment adviser with the U.S. Securities and Exchange Commission under the Investment Advisers Act of 1940. Causeway manages international, global, and emerging markets equity assets for corporations, pension plans, public retirement plans, Taft-Hartley pension plans, endowments and foundations, mutual funds, charities, private trusts and funds, wrap fee programs, and other institutions. The firm includes all discretionary and non-discretionary accounts managed by Causeway.

Causeway claims compliance with the Global Investment Performance Standards (GIPS®).

The International Value Equity Composite ("International Composite") includes all U.S. dollar denominated, discretionary accounts in the international value equity strategy, which do not apply a minimum market capitalization requirement of $2.5 billion or higher ($5 billion or higher prior to November 2008), permit investments in South Korean companies after October 2003, do not regularly experience daily external cash flows, and are not constrained by socially responsible investment restrictions. The international value equity strategy seeks long-term growth of capital and income through investment primarily in equity securities of companies in developed countries located outside the U.S. From June 2001 through November 2001, the International Composite included a non-fee-paying account with total assets of approximately $2 million. This was the sole account in the International Composite from June through September 2001. The account was included in the International Composite at account inception because it was fully invested at inception. The benchmark is the MSCI EAFE Index.

The Global Value Equity Composite ("Global Composite") includes all U.S. dollar denominated, discretionary accounts in the global value equity strategy which are not constrained by socially responsible investment restrictions. Through March 30, 2007, Causeway managed the Global Composite using research and recommendations regarding U.S. value stocks from an unaffiliated investment advisory firm under a research services agreement for an asset-based fee. The global value equity strategy seeks long-term growth of capital and income through investment primarily in equity securities of companies in developed countries located outside the U.S. and of companies located in the U.S. The benchmark is the MSCI World Index.

The Emerging Markets Equity Composite includes all U.S. dollar denominated, discretionary accounts in the emerging markets equity strategy. The emerging markets equity strategy seeks long-term growth of capital through investment primarily in equity securities of companies in emerging markets using a quantitative investment approach. The benchmark is the MSCI Emerging Markets Index.

The International Opportunities Composite includes all U.S. dollar denominated, discretionary accounts in the international opportunities strategy. The international opportunities strategy seeks long-term growth of capital through investment primarily in equity securities of companies in developed and emerging markets outside the U.S. using Causeway's asset allocation methodology to determine developed and emerging weightings, and using Causeway's international value equity strategy or Causeway International Value Fund for the developed portion of the portfolio and Causeway's emerging markets strategy or Causeway Emerging Markets Fund for the emerging markets portion of the portfolio. The benchmark is the MSCI All Country World Index ex U.S.

The Global Opportunities Composite includes all discretionary accounts in the global opportunities strategy. The global opportunities strategy seeks long-term growth of capital through investment primarily in equity securities of companies in developed and emerging markets outside the U.S. and of companies located in the U.S. using Causeway's asset allocation methodology to determine developed and emerging weightings, and using Causeway's global value equity strategy or Causeway Global Value Fund for the developed portion of the portfolio and Causeway's emerging markets strategy or Causeway Emerging Markets Fund for the emerging markets portion of the portfolio. The benchmark is the MSCI All Country World Index.

The Global Absolute Return Composite" includes all discretionary accounts in the global absolute return ("GAR") strategy. The GAR strategy seeks long-term growth of capital with low or no correlation to the MSCI World Index through investment in long and short exposures to common and preferred stocks of companies in developed countries located outside the U.S. and of companies located in the U.S. The benchmark is the BofA Merrill Lynch 3-Month U.S. Treasury Bill Index. The GAR strategy takes long and short positions in securities directly and/or using swap agreements. The strategy will use leverage up to four times total assets. The use of leverage is speculative and will magnify any losses. Short positions will lose money if the price of the underlying security increases, and losses on shorts are therefore potentially unlimited. The strategy involves significant expenses including financing charges and transaction costs which will reduce investment returns and increase investment losses. To the extent swap agreements are used, the strategy risks loss of the amount due under a swap agreement if the counterparty defaults. To the extent assets are held by a prime broker, recovery will be limited in the event of the prime broker's insolvency. The strategy involves liquidity risks since a portfolio may not be able to exit security exposures immediately, particularly during periods of market turmoil.

New accounts are included in the Composites after the first full month under management, except as noted for the International Composite above. Terminated accounts are included in the Composites through the last full month under management. Account returns are calculated daily. Monthly account returns are calculated by geometrically linking the daily returns. The returns of the Composites are calculated monthly by weighting monthly account returns by the beginning market values. Valuations and returns are computed and stated in U.S. dollars. Returns include the reinvestment of interest, dividends, and any capital gains. Returns are calculated gross of withholding taxes on dividends, interest income, and capital gains. The firm's policies for valuing portfolios, calculating performance, and comparing compliant presentations are available upon request. Gross-of-fees returns are presented before management, performance-based and custody fees, but after trading expenses. Net-of-fees returns are presented after the deduction of actual management fees, performance-based fees and all trading expenses, but before custody fees. Causeway's basic management fee schedules are described in its firm brochure pursuant to Part 2 of Form ADV.

Past performance is no guarantee of future performance. In addition to the normal risks associated with investing, international investments may involve risk of capital loss from unfavorable fluctuation in currency values, from differences in generally accepted accounting principles or from economic or political instability in other nations. Emerging markets involve heightened risks related to the same factors as well as increased volatility and lower trading volume.

The MSCI EAFE Index is an arithmetical average weighted by market value of the performance of approximately 1,000 non-U.S. companies representing 22 stock markets in Europe, Australasia, New Zealand and the Far East. The MSCI World Index is a free float-adjusted market capitalization index, designed to measure developed market equity performance, consisting of 24 developed country indexes, including the U.S. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index, designed to measure equity market performance in the global emerging markets. The MSCI All Country World Index ex U.S. is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets excluding the U.S. The MSCI All Country World Index is a free float-adjusted market capitalization weighted index that is designed to measure the equity market performance of developed and emerging markets. The BofA Merrill Lynch 3-Month U.S. Treasury Bill Index is comprised of a single issue purchased at the beginning of the month and held for a full month. Each month the index is rebalanced and the issue selected is the outstanding Treasury Bill that matures closest to, but not beyond 3 months from, the rebalancing date. The Treasury Bills comprising the Index are guaranteed by the U.S. government as to the timely payment of interest and principal. While accounts in the GAR strategy may invest a portion of their assets in Treasury Bills, accounts will primarily be exposed to securities that will not be similarly guaranteed by the U.S. government. The Indices are gross of withholding taxes, assume reinvestment of dividends and capital gains, and assume no management, custody, transaction or other expenses. It is not possible to invest directly in these indices. Accounts in the Composites may invest in countries not included in their benchmark indices.

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Contact Sarah Van Ness at 310-231-6127 or vanness@causewaycap.com to request a complete list and description of firm composites and/or a presentation that adheres to the GIPS® standards.

Market Commentary

The market commentary expresses the portfolio managers' views as of 10/18/2013 and should not be relied on as research or investment advice regarding any stock. These views and portfolio holdings and characteristics are subject to change. There is no guarantee that any forecasts made will come to pass. Any portfolio securities identified and described do not represent all of the securities purchased, sold, or recommended for client accounts. The reader should not assume that an investment in the securities identified was or will be profitable.